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**STATE OF VERMONT
DEPARTMENT OF PUBLIC SERVICE**

MEDIA RELEASE

**DPS PROPOSES UPDATED REGULATORY
PLAN FOR VERIZON**

Montpelier, VT – The Department of Public Service today filed recommendations with the Public Service Board for a new incentive regulation plan governing Verizon's Vermont operations. The filing, which includes incentives for Verizon to increase investments in broadband deployment and network reliability, is the next step in a case already open with the Board to determine how Verizon will be regulated after expiration of its current five-year incentive regulation plan in June, 2005.

"Although the telecommunications market is changing and competitors are making inroads, Verizon remains by far the dominant player for the vast majority of Vermonters. The filing we are making today recommends measures that will ensure ratepayers can count on Verizon, the phone company that serves most Vermonters, for reliable and up-to-date telecommunications service," said David O'Brien, DPS Commissioner. "Telecommunications today is more critical than ever to our economy and our society. The three-year plan we are proposing will see us through this time of transition in communications technology and markets with an assurance of quality and value," he said. "The Governor has made broadband availability to our entire state a priority and our proposal is intended to further our progress toward this important goal," O'Brien added.

Department experts found that Verizon is earning about \$33 million in excess revenues annually, a very different picture than the one painted by the company, which has claimed it is under-earning in Vermont. The Department's filing documents the over-earnings and recommends that the PSB offer two options to the Company. Option one would be to return the excess earnings to consumers in the form of rate reductions. Option two recommends the PSB address Verizon's over-earnings by offering it the opportunity to defer a portion of the rate reductions by making additional investments in increased network reliability and broadband deployment.

"Our research showed that Verizon's customers face two critical problems in Vermont. First, Verizon's investment in the basic network infrastructure that ensures continued service in

the case of events such as fiber cuts has been very limited. This lack of network diversity puts important services, such as Enhanced 911 at risk," O'Brien said. "Second, despite a very laudable recent commitment Verizon made to increased investment in broadband, many smaller communities will still remain without the service unless Verizon increases its network investment. Broadband availability is a top priority for this Administration, as well as for the many small communities whose growth and well-being depend on having up-to-date communication and information resources," he said.

The Department's proposed plan recognizes that Verizon cannot be required to deploy DSL service, because broadband is under federal jurisdiction. Consequently, the plan offers incentives, rather than mandates, to the company to make such investments.

The Department's proposal also includes continuation of the Service Quality Plan from the current incentive regulation plan, with modifications aimed at shortening outage time in rural areas and reducing the number of long installation delays experienced by consumers. DPS has recommended that the system of compensation to customers in effect in the current plan, which resulted in a requirement for the return of about \$8 million to consumers as a result of 2003 service quality problems, be continued under the new plan.

The Department's plan also challenges Verizon's contention that sufficient competition exists to relax regulation much further than the Department has recommended and to do away almost completely with service quality standards. Vermont statutes provide the options of traditional "cost of service" regulation or "alternative regulation." Verizon opted for an alternative plan five years ago, and now is seeking a new alternative or incentive plan to be effective when the initial plan expires.

The Public Service Board will hold hearings in December on Verizon's and the Department's proposals. Further rounds of testimony and hearings will follow.

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